CHANNEL AREA LOGGERS LTD.

ANNUAL REPORT

1983 - 1984

OFFICERS

William Bennett
President

Gordon P. Trithart
Secretary/Treasurer

George Kemp
Manager

HEAD OFFICE: Berens River, Manitoba

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For Year Ended March 31, 1984

CHANNEL AREA LOGGERS LTD. - ANNUAL REPORT

APRIL 1, 1983 - MARCH 31, 1984

I. INTRODUCTION:

Channel Area Loggers Ltd. is a Crown Corporation established in 1973 under the Manitoba Natural Resources Development Act to provide, as a principal objective, an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

The Company conducts pulpwood harvesting operations on the east side of Lake Winnipeg where a valuable forestry resource exists and where there is a serious lack of employment opportunities.

Skidders are used to harvest spruce pulpwood in eight foot lengths for sale to Abitibi-Price Inc. at Pine Falls. Abitibi-Price Inc. accepts delivery of the pulpwood at barge landing on the east side of Lake Winnipeg. The product is used to produce newsprint at their Pine Falls mill.

The Company suffered a series of losses totalling $1,578,674 in its first nine years of operation before demonstrating an improved trend from 1980 to 1983 when a small profit was realized. However, a loss for the fiscal year under review has necessitated substantial Government assistance. Profit/(Loss) for the last five fiscal years ending March 31st are as follows:

	Profit	Loss
1980		$278,011
1981		173,487
1982		17,262
1983	$38,976	
1984		148,949

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The profits/(losses) provided in the foregoing table are prior to receipt of general subsidies from the Province, but include receipt of specific subsidies provided to offset developmental costs.

II. SYNOPSIS OF THE YEAR'S EVENTS:

The important and progressive achievements demonstrated in the profit/(loss) for the two years ending March 31st, 1983 (1982 - ($17,262) and 1983 - $38,976) were somewhat reversed by the poor results for the year ending March 31st, 1984.

The Company's timber inventory survey which commenced in the summer of 1982 in Forest Management Unit #38 revealed that the spruce timber available within reasonable access of the main camp on the Pigeon River would limit Company production. That is, the available spruce would require a winter cut operation with cutting limited to the months of January to March, unless roads were built, the cost of which is prohibitive in this area. In addition to the levels of production required to sustain the Company's present structure, the individual skidder Owner/Operators require wood volumes to support viable operations. To overcome the problem of a short annual cutting period, the base camp was moved some 17 miles south-east to a location on the Berens River which is 15 miles east of the Community of Berens River. Road access to the Community is limited to winter months. Supplies and employees must be flown to the campsite from April to December inclusive. While an all weather road from the Community to the campsite would enhance the operation considerably and provide access for meaningful reforestation, the cost is financially prohibitive to the Company.

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The exceptional expertise and demonstrated results of Mr. James Benoit were lost when he retired to a warmer climate.

Fires played a negative role over the past two years by depleting prime pulpwood inventory in Forest Management Unit #38. This Forest Management Unit is an area extending east of Lake Winnipeg, some 10 miles north of Berens River and south to the Bradbury River, a radius of approximately 30 miles. In addition to the market limitation placed on production by Abitibi-Price Inc., the Company is also constrained by the maximum allowable annual cut of mature spruce. This annual allowable cut is the amount of a timber species that can be harvested in perpetuity without depleting the stocks. Fire has decreased the annual allowable cut in this particular area from in excess of 30,000 cords in 1979 to under 19,000 cords in 1985. Fire also destroyed a small tool shed and the Company's crawler dozer, both of which were insured.

Company policy of utilizing local Owner/Operators was expanded during the year as the only trucker from Berens River expanded his business from 1 to 3 trucks. Additionally, a local resident purchased a slasher which cuts the trees into 8 foot lengths, thus obviating this laborious task.

Outside contracting was limited to the slashing of some 1,000 cords and rental of a crawler dozer. The dozer was used to provide the extensive winter road system necessitated by the move to a new cutting area from which wood must be hauled to Pigeon Point on the shore of Lake Winnipeg. The average haul distance has increased from 15 to 27 miles.

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Metric measurement (scaling) of pulpwood is being used by the Company. However, for the purposes of this report, production is expressed in cords.

Two skidder Owner/Operators failed during the year. Of the original 11 Owner/Operators originally sponsored, a total of 4 have failed. Two of these machines are being placed with new local residents, one is to be sold and one will be used for parts.

Seven new Company Directors were appointed during the year including a new Chairperson. Six of the Directors appointed are local residents of Berens River.

III. REVIEW OF RESULTS:

A. Financial Results

Appended are audited financial statements for the fiscal year 1983-84 as prepared by the Provincial Auditor. These statements report a loss of $148,949 for 1983-84 compared to a profit of $38,976 for the previous year. These figures are following receipt of specific developmental subsidies provided by the Province.

The substantial deterioration in financial results is attributed to a reduction of 5,600 cords in production and 14,100 cords in sales. As a result, it was necessary for the Province to provide the following assistance:

1. General Subsidy to Offset Current Year Loss	$109,973
2. Specific Subsidies	
a) Operating	
Campsite Relocation	$ 55,700
Winter Road Construction	15,826
Consulting Fees	6,486
Strip Cutting Program	4,412
Sub-Total	$ 82,424
b) Capital	
Timber Inventory Survey	$ 21,037
Total Assistance	$213,434

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Following is a table which illustrates per cord costs for major expenditure categories over the past three years.

Cost Category	1981-82	1982-83	1983-84
Cutters & Contract Wood	$30.28	$31.26	$35.52
Transportation	13.16	13.11	10.62
Company Equip. & Main.	.82	2.44	5.26
Roads	8.37	7.12	8.48
Kitchens & Dorms	2.01	1.72	2.22
General & Admin.	10.51	13.22	31.84
Supervision & Bush	1.44	.75	2.89

The substantial per cord cost increases is attributed to unusually poor productivity, especially in the last three months of the fiscal year and the Company's inability to restrain general and administrative costs. The reduction in per cord costs for transportation is due to a decrease of some $17,000 in the cost of forwarding wood to roadside and the cost of personal transportation.

The $30,000 increase in wage costs in 1983-84, in spite of the substantial production decrease of 5,600 cords, is directly attributed to mechanical versus hand felling.

B. Production

An outline of production (in cords) for the past four years and delivered pulpwood for the past five years are included in the following tables:

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Annual Pulpwood Production in Cords

For the Years Ending March 31st

	1981	1982	1983	1984
Strip Production:				
- Cut, Pile & Forward	1,568	-	407	100
Contractors:	2,506	9,479	-	-
Skidder Production				
- Owner/Operators	15,018	17,781	12,593	7,300
TOTAL	19,092	27,260	13,000	7,400

Annual Delivered and Sold Pulpwood Volume in Cords

As at March 31st

1984	4,900
1983	19,000
1982	22,000
1981	19,151
1980	18,542

Production was budgeted at 16,500 cords whereas the Company attained 7,400 cords. This can be attributed to, an unusually mild winter which caused access problems, small diameter wood, absenteeism, time spent on cleaning up an area in preparation for a move to a new logging area, and the fact that a productive outside Contractor was no longer available. Because of the Company's high overhead and mechanized equipment, high dependable production targets are essential to avoid financial losses. This necessitates a work ethic that is contrary to what the Company has experienced.

Considerable mechanical problems were experienced by the local trucking contractor and due to the short hauling season, the Company was unsuccessful in attracting outside truckers.

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C. Other Benefits

The Company employed a total of 36 people in 1983-84 with wages and benefits totalling $183,212 compared to $154,165 in 1982-83. Payments to and on behalf of contractors, including wages, amounted to $235,013 in 1983-84 compared to $469,654 in 1982-83. Some 55% of total wages were to residents of Berens River and another 30% to individuals of Indian ancestry from other areas of the Province. Approximately 85% of the payments to Contractors were to residents of the Channel Area.

The Company is the second largest employer in the Berens River area. Only commercial fishing employs more local individuals.

The Company maintains a commissary and grocery store facility for employees. This facility provides a variety of food products, confectionary items, and winter clothing, in addition to an order office for skidder and power saw parts.

D. Training

The Company continues to provide on the job training. However, a shortage of training funds makes it difficult to acquire adequate facilities and to retain persons able to provide training.

E. Other Developments

During the year, Mr. John Christensen, Chairperson and President of the Company, resigned due to personal business matters. Mr. William (Bill) Bennett of Matheson Island, Manitoba was appointed as Chairperson and President. Mr. Bennett is a fisherman, former logger and Mayor of the Community of Matheson Island.

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To provide more local input into the affairs of the Company, 6 local residents were appointed to the Board, 3 selected from members of the Berens River Indian Band and 3 selected from the Community of Berens River.

The Province provides a Secretary/Treasurer to the Board of Directors.

MANITOBA

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

CHANNEL AREA LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1984 and the statement of revenues and expenditures, the statement of changes in financial position and the schedules of operating expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at March 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

W. K. Ziprick, C.A.,
Provincial Auditor.

September 28, 1984,
Winnipeg, Manitoba.

Exhibit A

CHANNEL AREA LOGGERS LTD.

(Incorporated Under The Corporations Act, Manitoba)

Balance Sheet
as at March 31, 1984
(with 1983 figures for comparison)

ASSETS

	1984	1983
CURRENT ASSETS:		
Cash on hand and in bank	$ -	$ 12,997
Accounts receivable (Note 2)	251,804	84,573
Subsidy receivable from the Province of Manitoba	109,973	-
Inventories (Note 3)	255,104	103,442
Prepaid expenses	1,567	1,714
Total current assets	618,448	202,726
FIXED ASSETS (Note 4)	354,269	585,868
Less accumulated depreciation and amortization	171,137	317,320
Net fixed assets	183,132	268,548
GUARANTEE DEPOSIT WITH THE PROVINCE OF MANITOBA	900	900
DEFERRED EXPENDITURES - Timber Inventory Survey	38,876	16,558
TOTAL	$ 841,356	$ 488,732

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Excess of outstanding cheques over bank balances	$ 7,792	$ -
Bank demand loan (Note 5)	200,000	45,000
Accounts payable (Note 6)	169,295	88,108
Deferred revenue	126,584	-
Total current liabilities	503,671	133,108
DEFERRED REVENUE - Assistance from Province of Manitoba (Note 9)	37,595	16,558
SHAREHOLDERS' EQUITY:		
Capital stock (Note 7):		
Authorized: 35,000 common shares, maxium consideration not to exceed $350,000		
Issued: 30,009 shares	300,090	300,090
Retained earnings	-	38,976
	300,090	339,066
TOTAL	$ 841,356	$ 488,732

Approved by the Board:

Director _____

Director _____

Exhibit B

CHANNEL AREA LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1984
(with 1983 figures for comparison)

	1984	1983
REVENUES:		
Pulpwood sales	$ 303,015	$ 1,213,484
Commissary sales	128,468	121,052
Miscellaneous	12,461	6,415
	443,944	1,340,951
EXPENDITURES:		
Direct logging costs (Schedule 1)	366,736	1,101,191
General and administrative (Schedule 2)	235,635	170,468
Commissary	107,605	103,546
	709,976	1,375,205
	(266,032)	(34,254)
OTHER INCOME AND EXPENSES:		
Gain on fire insurance claims	13,571	33,517
Gain (loss) on disposal of fixed assets	21,088	(2,615)
	34,659	30,902
Excess (deficiency) of revenues over expenditures before operating assistance from the Province of Manitoba	(231,373)	(3,352)
Operating Assistance from the Province of Manitoba - General subsidy	109,973	-
- Specific subsidy (Note 9)	82,424	42,328
	192,397	42,328
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (38,976)	$ 38,976

Exhibit C

CHANNEL AREA LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1984
(with 1983 figures for comparison)

	1984	1983
SOURCE OF WORKING CAPITAL:		
Excess of revenues over expenditures	$ -	$ 38,976
Charges to operations not involving an outlay of funds:		
Depreciation and amortization	-	50,400
Loss on sale of fixed assets	-	2,615
	-	91,991
Proceeds from disposal of fixed assets	38,058	4,060
Book value of fixed assets realized on fire insurance claim	46,734	7,402
	84,792	103,453
APPLICATION OF WORKING CAPITAL:		
Deficiency of revenues over expenditures	38,976	-
Charges to operations not involving an outlay of funds:		
Depreciation and amortization	(57,065)	-
Gain on sale of fixed assets	21,088	-
	2,999	-
Purchase of fixed assets, net	35,353	87,268
Deferred expenditures, net	1,281	-
	39,633	87,268
Increase in working capital for the year	45,159	16,185
Working capital at beginning of the year	69,618	53,433
Working capital at end of the year	$ 114,777	$ 69,618
Represented by:		
Current assets	$ 618,448	$ 202,726
Current liabilities	503,671	133,108
	$ 114,777	$ 69,618

Schedule 1

CHANNEL AREA LOGGERS LTD.

Schedule of Direct Logging Costs
for the year ended March 31, 1984
(with 1983 figures for comparison)

	1984	1983
INVENTORY AT BEGINNING OF THE YEAR	$ -	$ 304,422
PRODUCTION EXPENSES:		
Contract wood purchases	183,708	316,556
Cutters wages and fringe benefits	79,163	86,675
Transportation:		
Contract hauling to landing	51,305	153,098
Forwarding to roadside	1,983	9,264
Freight and fuel movement	10,843	8,684
Personnel transport	14,438	24,218
Road construction and maintenance, net (Note 9)	62,757	91,807
Timber dues	14,655	38,101
Supervision	21,374	9,586
Repairs and maintenance	38,926	31,455
Insurance	-	5,073
Other	98	177
Net kitchen and dormitory expenses	16,442	22,075
Total production expenses	495,692	796,769
INVENTORY AT END OF THE YEAR	128,956	-
DIRECT LOGGING COSTS, EXHIBIT B	$ 366,736	$ 1,101,191

Schedule 2

CHANNEL AREA LOGGERS LTD.

Schedule of General and Administrative Expenses
for the year ended March 31, 1984
(with 1983 figures for comparison)

	1984	1983
Salaries, wages and fringe benefits (Note 9)	$ 82,675	$ 57,904
Interest and service charges	13,690	59,211
Travel and accomodation	9,273	6,478
Mobile home	7,447	11,908
Communications	8,587	5,461
Bad debts	14,570	(14,060)
Legal, audit and accounting	20,643	24,133
Directors' travel and accomodation	3,800	1,799
Directors' fees	4,890	3,193
Office supplies and utilities	4,304	4,014
Taxes, licences and fees	4,584	1,641
Insurance	1,822	940
Room and board	-	7,649
Miscellaneous	1,728	197
Campsite development and relocation (Note 9)	57,622	-
Total general and administrative expenses	$ 235,635	$ 170,468

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1984

1. Accounting Policies

The accounting policies of the company are in accordance with generally accepted accounting principles and their basis of application is consistent with that of the preceding year.

Inventories:

Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets:

Fixed assets are stated at cost. It is the company's policy to provide for depreciation and amortization of fixed assets on the basis shown in note 4.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

2. Accounts Receivable

The major categories of accounts receivable are:

	1984	1983
General	$ 59,322	$ 50,490
Fire insurance claims	91,862	-
Government of Manitoba	62,389	10,408
Government of Canada and Manitoba - Special A.R.D.A. grants	-	9,450
Government of Canada	9,595	-
Contract cutters	28,636	14,225
	$ 251,804	$ 84,573

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1984

3. Inventories

	1984	1983
The major categories of inventory are:		
Pulpwood	$ 128,956	$ -
Other:		
Commissary supplies	4,027	5,730
Chain saws	4,206	3,822
Parts and supplies	26,161	16,095
Gasoline and oil	89,833	74,391
Kitchen supplies	1,921	3,404
	126,148	103,442
	$ 255,104	$ 103,442

4. Fixed Assets

The major categories of fixed assets and related accumulated depreciation and amortization at March 31, 1984 are:

	Cost	Accumulated Depreciation and Amortization	Rates
Buildings and Trailers	$ 240,470		
Less: Funded by the Government of Canada	58,327		
	182,143	$ 73,320	10 - 33 1/3%
Machinery and Equipment	193,315		
Less: Funded by the Province of Manitoba	21,189		
	172,126	97,817	20 - 30%
	$ 354,269	$ 171,137	

It is the company's practice to provide for depreciation of buildings, trailers, machinery and equipment under the declining balance basis at the rates shown above. The total amount so provided for the current year was $57,065 (1983 - $50,400).

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1984

5. Bank Demand Loan

The bank demand loan is guaranteed by the Province of Manitoba to a maximum of $500,000 including unpaid interest.

6. Accounts Payable

The major categories of accounts payable are:

	1984	1983
Trade	$ 126,275	$ 41,100
Wage deductions	16,460	1,905
Employees	-	3,500
Province of Manitoba	26,560	41,603
	$ 169,295	$ 88,108

7. Capital Stock

The issued shares are held by the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

8. Services Provided by the Province

The Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The Province also provides Workers Compensation coverage for Company staff at no charge to the Company.

9. Assistance from the Province of Manitoba

The Province of Manitoba provided financial assistance amounting to $103,461 to the Company in the form of an operating subsidy of $82,424 and a capital subsidy of $21,037 during the year ended March 31, 1984. The operating subsidy was provided for the following specific expenditures:

1. A contribution of $55,700 towards the cost of relocating and developing a new campsite.

2. A contribution of $15,826 towards the cost of building roads and moving equipment to the Company's new cutting area.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1984

9. Assistance from the Province of Manitoba (continued)

3. A contribution of $6,486 towards the consulting fees paid to the former manager of the Company.

4. A contribution of $4,412 (1983 - $13,497) towards transportation and maintenance costs associated with the Company's strip cutting operations.

The capital subsidy of $21,037 (1983 - $16,558) was provided for a timber inventory survey which is being conducted to assess wood inventories for planning future cutting operations.